

**REPORT OF THE AUDIT OF THE
ROCKCASTLE COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES**

**For The Period
May 09, 2008 Through May 07, 2009**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
ROCKCASTLE COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period
May 09, 2008 Through May 07, 2009

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2008 Taxes for Rockcastle County Sheriff for the period May 09, 2008 through May 07, 2009. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$2,820,106 for the districts for 2008 taxes, retaining commissions of \$116,507 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,701,161 to the districts for 2008 taxes. Taxes of \$9 are due to a district from the Sheriff and refunds of \$231 are due to the Sheriff from various taxing districts.

Report Comment:

- The Sheriff's Office Lacks An Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits as of January 7, 2009 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$1,472,659

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Buzz Carloftis, Rockcastle County Judge/Executive

Honorable Michael E. Peters, Rockcastle County Sheriff

Members of the Rockcastle County Fiscal Court

Independent Auditor's Report

We have audited the Rockcastle County Sheriff's Settlement - 2008 Taxes for the period May 09, 2008 through May 07, 2009. This tax settlement is the responsibility of the Rockcastle County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Rockcastle County Sheriff's taxes charged, credited, and paid for the period May 09, 2008 through May 07, 2009, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated May 4, 2010 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Buzz Carloftis, Rockcastle County Judge/Executive

Honorable Michael E. Peters, Rockcastle County Sheriff

Members of the Rockcastle County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks An Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

May 4, 2010

ROCKCASTLE COUNTY
MICHAEL E. PETERS, SHERIFF
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period May 09, 2008 Through May 07, 2009

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 273,428	\$ 391,106	\$ 1,353,295	\$ 422,255
Tangible Personal Property	17,076	31,034	91,728	69,082
Fire Protection	1,626			
Increases Through Exonerations	25	35	123	38
Franchise Taxes	34,055	58,254	180,763	
Additional Billings	252	388	1,278	3,373
Limestone, Sand and Mineral Reserves	128	183	634	198
Penalties	2,959	4,240	14,618	4,587
Adjusted to Sheriff's Receipt	(60)	3	(148)	(236)
Gross Chargeable to Sheriff	<u>329,489</u>	<u>485,243</u>	<u>1,642,291</u>	<u>499,297</u>
<u>Credits</u>				
Exonerations	3,994	5,753	19,807	8,685
Discounts	4,417	6,419	21,884	7,352
Delinquents:				
Real Estate	6,272	8,944	30,948	9,656
Tangible Personal Property	134	245	723	981
Total Credits	<u>14,817</u>	<u>21,361</u>	<u>73,362</u>	<u>26,674</u>
Taxes Collected	314,672	463,882	1,568,929	472,623
Less: Commissions *	<u>13,661</u>	<u>19,715</u>	<u>62,757</u>	<u>20,374</u>
Taxes Due	301,011	444,167	1,506,172	452,249
Taxes Paid	300,739	443,775	1,504,851	451,796
Refunds (Current and Prior Year)	<u>296</u>	<u>410</u>	<u>1,501</u>	<u>453</u>
Due Districts or (Refunds Due Sheriff) as of Completion of Audit	<u>\$ (24)</u>	<u>\$ (18)</u>	<u>\$ (180)</u>	<u>\$ 0</u>

* and ** See Next Page.

The accompanying notes are an integral part of this financial statement.

ROCKCASTLE COUNTY
 MICHAEL E. PETERS, SHERIFF
 SHERIFF'S SETTLEMENT - 2008 TAXES
 For The Period May 09, 2008 Through May 07, 2009
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	1,241,177
4% on	\$	1,568,929

** Special Taxing Districts:

Library District	\$	9
Health District		(14)
Extension District		(6)
Soil District		(7)
		<hr/>

Due Districts or (Refunds Due Sheriff)	\$	(18)
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The accompanying notes are an integral part of this financial statement.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT

May 07, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Rockcastle County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

ROCKCASTLE COUNTY
 NOTES TO FINANCIAL STATEMENT
 May 07, 2009
 (Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of May 07, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of January 7, 2009, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$1,472,659

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2008. Property taxes were billed to finance governmental services for the year ended June 30, 2009. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 20, 2008 through May 7, 2009.

Note 4. Interest Income

The Rockcastle County Sheriff earned \$399 as interest income on 2008 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office. As of May 4, 2010, the Sheriff owed \$206 in interest to the school district.

Note 5. Sheriff's 10% Add-On Fee

The Rockcastle County Sheriff collected \$18,935 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Rockcastle County Sheriff collected \$2,700 of advertising costs and \$7,188 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). As of May 4, 2010, the Sheriff owed \$2,700 in advertising costs to the county.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Buzz Carloftis, Rockcastle County Judge/Executive
Honorable Michael E. Peters, Rockcastle County Sheriff
Members of the Rockcastle County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Rockcastle County Sheriff's Settlement - 2008 Taxes for the period May 09, 2008 through May 07, 2009, and have issued our report thereon dated May 4, 2010. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Rockcastle County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Rockcastle County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Rockcastle County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks An Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Rockcastle County Sheriff's Settlement - 2008 Taxes for the period May 09, 2008 through May 07, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Rockcastle County Sheriff's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Rockcastle County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

May 4, 2010

COMMENT AND RECOMMENDATION

ROCKCASTLE COUNTY
MICHAEL E. PETERS, SHERIFF
COMMENT AND RECOMMENDATION

For The Period May 09, 2008 Through May 07, 2009

INTERNAL CONTROL - MATERIAL WEAKNESSES:

The Sheriff's Office Lacks An Adequate Segregation Of Duties

A lack of adequate segregation of duties exists over receipts and disbursements. During our review of internal controls, we noted the Sheriff's bookkeeper opens incoming mail, collects tax payments, prepares deposits, prepares daily tax collection journals, and prepares monthly tax reports.

A limited budget places restrictions on the number of employees the Sheriff can hire. When faced with a limited number of staff, strong compensating controls should be in place to offset the lack of segregation of duties.

To adequately protect against misappropriation of assets and/or inaccurate financial reporting, the Sheriff should separate the duties involving the opening of mail, collecting and depositing of cash, and preparing the monthly tax reports. If, due to a limited number of staff, that is not feasible, strong oversight over these areas should occur and involve an employee not currently performing any of those functions. Additionally, the Sheriff could provide this oversight. If the Sheriff does implement compensating controls, these should be documented on the appropriate source documents.

Sheriff's Response: "OK"

